

March 2, 2015

Mr. Jake McWay
Chief Financial Officer
CoxHealth
Hulston Cancer Care Center
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Springfield, MO 65804

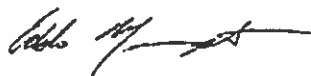
Mr. McWay:

In mid-February 2015, the American Institute of Certified Public Accountants (AICPA) issued an interpretation of the effect on defined benefit pension obligations due to the new mortality tables on nongovernmental entities that sponsor employee benefit plans¹. The interpretation stated that the new mortality tables published by the Society of Actuaries (SOA) on October 27, 2014, should be considered when selecting pension plan assumptions, if financial statements were not yet available to be issued. The updated mortality tables are applicable to periods prior to their publication as they are based on historical trends and data that go back many years, updating mortality conditions from previously available mortality tables.

CoxHealth (the "Health System") issued its audited financial statements on February 5, 2015, subsequent to the October 27, 2014, release of the SOA mortality tables and prior to the issuance of the AICPA interpretation. Based on the AICPA's interpretation, it was considered necessary to evaluate the new mortality assumptions and the impact on the Health System's accrued pension liability beyond the disclosed subsequent event disclosure included in the previously issued 2014 audited financial statements discussing the matter.

The Health System initially elected to include the new mortality assumptions with its defined benefit pension plan assumptions as part of their December 31, 2014, financial statements. Upon further evaluation, the Health System determined the updated mortality assumptions were significant to the overall accrued pension liability as of September 30, 2014. Therefore, the Health System has included the updated mortality assumptions as a recognizable subsequent event and recorded an adjustment of approximately \$17.5 million to restate the previously issued consolidated financial statements as of September 30, 2014. There was no impact on the statement of operations regarding this matter. Please refer to the *Note 16* and *Note 26*, of the consolidated financial statements dated March 2, 2015, for more information regarding the impact on the consolidated financial statements.

Sincerely,



Eddie Marmouget, CPA

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Praxity

CoxHealth

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2014 and 2013



CoxHealth
September 30, 2014 and 2013

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Independent Auditor's Report

Board of Directors
CoxHealth
Springfield, Missouri

We have audited the accompanying consolidated financial statements of CoxHealth (the "Health System"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of September 30, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 26* to the consolidated financial statements, the Health System updated its defined benefit pension plan assumptions, to include the new mortality assumptions released in October 2014 by restating the previously issued 2014 consolidated financial statements. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
February 5, 2015, except for *Note 16* and *Note 26* as to which the date is March 2, 2015

CoxHealth
Consolidated Balance Sheets
September 30, 2014 and 2013

Assets

	2014 (Restated - Note 26)	2013
Current Assets		
Cash and cash equivalents	\$ 126,224,251	\$ 75,596,714
Short-term investments	47,897,177	76,878,583
Assets limited as to use – current	20,447,116	18,507,358
Patient accounts receivable, net of allowance; 2014 – \$172,516,000, 2013 – \$153,562,000	159,102,018	160,062,368
Estimated amounts due from third-party payers	2,759,117	3,055,098
Other receivables	4,927,786	4,999,181
Contributions receivable - current	1,139,118	1,155,156
Supplies	15,683,086	15,266,770
Prepaid expenses	6,431,158	5,851,988
Total current assets	<u>384,610,827</u>	<u>361,373,216</u>
Assets Limited As To Use		
Investments		
Internally designated		
Building fund investments and other	247,203,014	217,451,302
Donated investments	171,289,992	159,182,853
Externally restricted		
Donor restricted	35,740,957	32,853,976
Under deferred compensation agreement	10,960,226	9,342,911
Required statutory reserves	9,605,681	9,904,488
Held by trustees		
Self-insurance trust investments	32,891,980	31,283,318
Under bond indenture agreements	107,204,359	175,575,937
	<u>614,896,209</u>	<u>635,594,785</u>
Less amount required to meet current obligations	20,447,116	18,507,358
	<u>594,449,093</u>	<u>617,087,427</u>
Contributions receivable	2,937,872	2,591,732
	<u>597,386,965</u>	<u>619,679,159</u>
Long-Term Receivables	<u>10,080,234</u>	<u>8,216,130</u>
Property and Equipment, At Cost	1,105,662,548	1,005,825,109
Less accumulated depreciation	623,648,339	587,257,302
	<u>482,014,209</u>	<u>418,567,807</u>
Goodwill and Intangible Assets	<u>26,041,061</u>	<u>26,591,061</u>
Other Assets	<u>15,058,820</u>	<u>17,210,253</u>
Total assets	<u>\$ 1,515,192,116</u>	<u>\$ 1,451,637,626</u>

Liabilities and Net Assets

	2014 Restated - Note 26)	2013
Current Liabilities		
Current maturities of long-term debt	\$ 14,160,935	\$ 15,932,743
Accounts payable	63,220,331	40,832,004
Accrued payroll and vacation pay	38,446,820	35,107,184
Accrued interest	7,259,641	8,125,442
Other accrued expenses	30,973,138	29,275,363
Estimated amounts due to third-party payers	3,311,335	4,111,226
Estimated insurance costs – current	19,176,288	20,222,546
Deferred revenue – current	6,274,876	4,703,924
Total current liabilities	182,823,364	158,310,432
Estimated Insurance Costs	20,995,290	25,045,834
Interest Rate Basis Swap	3,669,601	7,545,761
Deferred Compensation	11,066,626	9,444,753
Accrued Pension Liability	75,875,570	46,895,656
Other Long-Term Liabilities	4,255,153	3,018,014
Long-Term Debt	542,045,118	541,152,529
Total liabilities	840,730,722	791,412,979
Net Assets		
Unrestricted	634,508,141	623,597,716
Temporarily restricted	21,021,113	18,219,363
Permanently restricted	18,932,140	18,407,568
Total net assets	674,461,394	660,224,647
Total liabilities and net assets	\$ 1,515,192,116	\$ 1,451,637,626

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2014 and 2013

	2014 (Restated - Note 26)	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 1,196,106,884	\$ 1,130,283,432
Provision for uncollectible accounts	(127,323,118)	(137,533,538)
Net patient service revenue less provision for uncollectible accounts	1,068,783,766	992,749,894
Premium revenue	113,516,702	110,174,546
Other revenue	60,643,273	56,667,107
Net assets released from restrictions used for operations	3,224,984	3,118,018
Total unrestricted revenues, gains and other support	1,246,168,725	1,162,709,565
Expenses		
Salaries and wages	424,099,375	408,126,694
Employee benefits	98,673,707	98,197,985
Purchased services and professional fees	252,339,695	225,148,931
Supplies and other	333,208,917	309,092,887
State provider tax program	52,608,050	50,175,110
Depreciation and amortization	46,091,522	43,318,988
Interest	17,404,323	16,616,528
Total expenses	1,224,425,589	1,150,677,123
Operating Income	21,743,136	12,032,442
Other Income (Expense)		
Contributions	162,079	406,305
Investment return	35,026,738	10,362,656
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap and fair value option of Topic 825	(7,921,792)	27,716,661
Other	(358,862)	(1,920,739)
Contribution of Skaggs Regional Medical Center	-	56,806,570
Total other income (expense)	26,908,163	93,371,453
Excess of Revenues Over Expenses	48,651,299	105,403,895

CoxHealth
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2014 and 2013

	2014 (Restated - Note 26)	2013
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 48,651,299	\$ 105,403,895
Investment return – change in unrealized gains and losses on other than trading securities	(530,456)	(652,864)
Net assets released from restriction used for purchase of property and equipment	643,040	414,549
Change in defined benefit pension plan gains and losses and prior service costs	(37,853,458)	56,611,045
	<u>10,910,425</u>	<u>161,776,625</u>
Increase in unrestricted net assets		
Temporarily Restricted Net Assets		
Contributions	5,638,836	7,173,064
Investment return	928,227	728,295
Contribution from Skaggs Regional Medical Center	-	1,274,848
Change in interest in net assets of Skaggs Foundation	102,711	(11,510)
Net assets released from restrictions	(3,868,024)	(3,532,567)
	<u>2,801,750</u>	<u>5,632,130</u>
Increase in temporarily restricted net assets		
Permanently Restricted Net Assets		
Contributions	56,433	746,996
Investment return	468,139	92,354
Contribution from Skaggs Regional Medical Center	-	7,396,751
	<u>524,572</u>	<u>8,236,101</u>
Increase in permanently restricted net assets		
Change in Net Assets	14,236,747	175,644,856
Net Assets, Beginning of Year	<u>660,224,647</u>	<u>484,579,791</u>
Net Assets, End of Year	<u>\$ 674,461,394</u>	<u>\$ 660,224,647</u>

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014 (Restated - Note 26)	2013
Operating Activities		
Change in net assets	\$ 14,236,747	\$ 175,644,856
Items not requiring (providing) operating cash flow		
Depreciation and amortization	46,091,522	43,318,988
(Gain) loss on sale and impairment of property and equipment, net	(179,552)	1,519,189
Gain on refinancing of bonds	-	(40,457)
Loss on investment in equity investees	339,736	296,257
Appreciation of Series H Capital Appreciation Bonds	2,133,401	1,997,314
Net gain on investments	(15,877,869)	(31,619,442)
Change in defined benefit pension plan gains, losses and prior service costs	37,853,458	(56,611,045)
Contribution from Skaggs Regional Medical Center	-	(65,478,169)
Restricted contributions and investment income received	(7,194,346)	(8,729,199)
Change in fair value of interest rate basis swap	(3,876,160)	4,280,521
Changes in		
Receivables	701,643	(1,362,787)
Estimated third-party settlements	(503,910)	(94,831)
Accrued self-insurance costs	(6,455,305)	(1,685,377)
Other assets and liabilities	11,462,243	(15,649,067)
Net cash provided by operating activities	<u>78,731,608</u>	<u>45,786,751</u>
Investing Activities		
Proceeds from sales of short-term investments, net	29,483,435	64,943,983
Purchase of investments	(481,735,751)	(385,308,559)
Proceeds from sale of investments	530,215,356	152,471,925
Purchase of property and equipment	(99,841,666)	(36,302,133)
Proceeds from sale of property and equipment	110,927	287,966
Net cash paid to acquire Skaggs Regional Medical Center	-	(4,389,473)
Advances and repayments of long-term notes receivable, net	(596,737)	9,743
Advances to and investments in equity investees	(185,696)	39,748
Change in cash surrender value of life insurance policies	32,428	896,844
Net cash used in investing activities	<u>(22,517,704)</u>	<u>(207,349,956)</u>

CoxHealth
Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014 (Restated - Note 26)	2013
Financing Activities		
Proceeds from restricted contributions and investment income received	\$ 7,194,346	\$ 8,729,199
Proceeds from issuance of long-term debt	698,079	215,816,650
Principal payments on long-term debt	(13,478,792)	(44,176,541)
Payment on regulatory settlement	-	(5,399,690)
	<u>(5,586,367)</u>	<u>174,969,618</u>
Change in Cash and Cash Equivalents	50,627,537	13,406,413
Cash and Cash Equivalents, Beginning of Year	<u>75,596,714</u>	<u>62,190,301</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 126,224,251</u></u>	<u><u>\$ 75,596,714</u></u>
Supplemental Cash Flows Information		
Purchase of property and equipment in accounts payable	\$ 13,619,271	\$ 4,132,858
Interest paid	\$ 23,860,799	\$ 16,377,504
Capital lease obligation incurred for property and equipment	\$ 9,871,403	\$ 8,690,935
Acquisition of Skaggs Regional Medical Center (see Note 23)		
Assets acquired	\$ -	\$ 153,471,101
Liabilities assumed	\$ -	\$ 61,992,932

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lester E. Cox Medical Centers and its wholly owned subsidiaries plus certain affiliated not-for-profit entities are collectively referred to here as CoxHealth. CoxHealth (the "Health System") operates as an integrated delivery system including four hospitals, a surgical center, an inpatient rehabilitation facility, home care companies, physician services, mental health services, insurance companies and a foundation. The Health System primarily earns revenues by providing inpatient, outpatient, emergency care, inpatient rehabilitation, home care, physician services and health insurance products to patients and employers in Springfield, Missouri, and the surrounding southwest Missouri area.

Principles of Consolidation

The consolidated financial statements include the consolidated financial statements of Lester E. Cox Medical Centers (the "Medical Centers") and its wholly owned subsidiaries:

Cox Health Systems HMO, Inc. is the sole owner of Cox Health Systems Insurance Company and Cox Health Plans, LLC

Medical Developments, Inc.

Insurance Company of Springfield, Inc.

CoxHealth Alliance, LLC

Medical Developments, Inc., Cox Health Systems Insurance Company, Cox Health Systems HMO, Inc., Cox Health Plans, LLC, Insurance Company of Springfield, Inc. and Cox Health Alliance and are for-profit entities.

The consolidated financial statements also include the following not-for-profit entities for which the Boards are appointed by the Health System:

The Skaggs Community Hospital Association d/b/a Cox Medical Center Branson (acquired January 1, 2013, see *Note 23*)

Cox-Monett Hospital

CoxHealth Foundation

Cox HPS of the Ozarks, Inc.

Cox Alternative Care of the Ozarks, Inc., Healthcare Services of the Ozarks, Inc. and Cox Healthcare Services of the Midwest, Inc. collectively referred to as Oxford Home Health Care

Primrose Place, Inc.

CoxHealth

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Medical Developments, Inc., Cox HPS of the Ozarks, Inc., Oxford Home Health Care, Insurance Company of Springfield, Inc., Primrose Place, Inc. and CoxHealth Alliance, LLC are collectively referred to as Other CoxHealth Entities.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Health System considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers, repurchase agreement accounts and certificates of deposit.

At September 30, 2014, the Health System's cash accounts exceeded federally insured limits by approximately \$31,700,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at fair value. Investments in equity investees are reported on the equity method of accounting and are included with long-term receivables on the consolidated balance sheets. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments also include investments in alternative assets, such as hedge funds structured as limited liability corporations or partnerships. These funds are carried at net asset value. The estimated fair value of these alternative investments is based on the most recent valuations provided by external investment managers.

Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine those fair values, and believes the carrying amount of these investments is a reasonable estimate of fair value. The amount at which the Health System may be able to sell the investments may be different than the estimated carrying value.

CoxHealth

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Health Claims Incurred and Reserved

Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc. contract with various health care providers for the provision of hospitalization and other medical services to their members. These companies compensate the providers based upon negotiated discounts from established rates or at predetermined rates based upon diagnosis.

Accrued medical claims and related expenses (hospitalization and other medical services) include amounts billed and not paid, an estimate of costs incurred for unbilled services and an estimate of costs to be incurred for hospitalizations in progress at period end. Management believes such estimates to be adequate; however, the actual amount paid may be more or less than the amounts provided. Adjustments to these estimates are included in current operations.

All claims paid to CoxHealth from its consolidated insurance companies have been eliminated in consolidation.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Directors and management for future capital improvements, major contingencies and debt service over which the Board and management retains control and may at its discretion subsequently use the assets for other purposes; assets externally restricted by donors, deferred compensation agreements and required statutory reserves for Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc.; assets held by trustees under indenture agreements; self-insurance trust arrangements and certain contributions receivable. Amounts required to meet current liabilities of the Health System are included in current assets. Donated investments are limited to the purpose of paying bonded or lienable indebtedness under the Health System's Articles of Association.

Patient Accounts and Notes Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

CoxHealth

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Health System's allowance for doubtful accounts for self-pay patients was consistent at 90% of self-pay accounts receivable at September 30, 2013 and 2014. In addition, the Health System's write-offs increased approximately \$48,500,000 from approximately \$96,200,000 for the year ended September 30, 2013, to approximately \$144,700,000 for the year ended September 30, 2014. The increase was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2014 and the impact of a business office system conversion.

Supplies

The Health System states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

The Health System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred for was:

	2014	2013
Total interest expense incurred on borrowings for project	\$ 5,807,701	\$ 2,876,510
Interest income from investment of proceeds of borrowings for project	<u>(563,854)</u>	<u>(38,153)</u>
Net interest cost capitalized	<u>\$ 5,243,847</u>	<u>\$ 2,838,357</u>
Interest capitalized	\$ 5,807,701	\$ 2,876,510
Interest charged to expense	<u>17,404,323</u>	<u>16,616,528</u>
Total interest incurred	<u>\$ 23,212,024</u>	<u>\$ 19,493,038</u>

Long-Lived Assets Impairment

The Health System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No impairment was recorded in 2014. During 2013, a building was demolished in Branson for renovation of the emergency department. The buildings remaining net book value of approximately \$1,665,000 was therefore impaired as of September 30, 2013. The impairment was recorded within the other income (expense) section of the statement of operations.

Interest in Net Assets of Skaggs Foundation

Skaggs Foundation holds certain restricted net assets on behalf of the Health System. The Health System accounts for its interest in the net assets of Skaggs Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Skaggs Foundation and the Health System are recognized as increases or decreases in the Interest.

CoxHealth

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. No impairment was recorded in 2014 and 2013.

Other Assets

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method of amortization. Other loan costs are being amortized on a straight-line basis over the term of the loan.

The Health System funds life insurance policies for certain key executives. Upon termination of the policies all premiums advanced to the policy holder will be returned to the Health System.

Deposits of various amounts are on account with certain vendors which provides for additional discounts on purchases made.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity.

The governing Board of the Health System treats any appreciation in endowment funds as permanently restricted unless specified otherwise by the donor. Interest and dividends from permanently restricted investments are recorded as unrestricted net assets unless donor stipulations restrict such earnings.

Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Premium Revenue

The Health System receives premium revenue through Cox Health Systems Insurance Company and Cox Health Systems HMO, Inc., resulting from the sale of health insurance policies. Premiums are reported as earned in the period in which members are entitled to receive health care services. Premiums received prior to such period are recorded as deferred revenue and reflected as a liability in the accompanying balance sheets.

Charity Care

The Health System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Estimated Insurance Costs and Professional Liability Claims

An annual estimated provision is accrued for professional liability claims, comprehensive general liabilities, employee health care and worker's compensation claims and includes an estimate of the ultimate costs, including estimated costs to defend the claims, for both reported claims and claims incurred but not reported. The estimated liability for claims not expected to be settled within the next year is included in long-term liabilities.

The Health System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

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Notes to Consolidated Financial Statements

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Income Taxes

The following organizations are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the organizations are subject to federal income tax on any unrelated business taxable income.

Lester E. Cox Medical Centers
Cox Alternative Care of the Ozarks, Inc.
Healthcare Services of the Ozarks, Inc.
Cox Healthcare Services of the Midwest, Inc.
Cox HPS of the Ozarks, Inc.
Cox-Monett Hospital
Cox Medical Center Branson
Primrose Place, Inc.
CoxHealth Foundation

Medical Developments, Inc., Cox Health Systems Insurance Company, CoxHealth System HMO, Inc., CoxHealth Plans, LLC, Insurance Company of Springfield, Inc. and CoxHealth Alliance, LLC are for-profit entities and subject to federal and state income tax.

The Health System files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health System is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Deferred Revenue

The Health System receives payment in advance of services being provided for home care services, nursing education tuition and insurance policy premiums. These advance payments are recorded as deferred revenue and recognized as revenue as services are provided.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, accrued pension liability adjustments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

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Notes to Consolidated Financial Statements

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Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period end date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Health System continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The System recognized revenue of approximately \$5,800,000 and \$7,800,000 during 2014 and 2013, respectively, which is included in other revenue within operating revenues in the statements of operations and changes in net assets.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 consolidated financial statements presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.

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Notes to Consolidated Financial Statements
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Note 2: Net Patient Service Revenue

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Cox-Monett Hospital is a critical access hospital. As such, it is paid on a cost basis for most inpatient and outpatient services. The Health System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively established per diem rate. Medicaid outpatient reimbursement is based on a prospective percentage rate determined from prior cost reports regressed forward.

The Health System participates in the states provider tax program which provides for additional reimbursement from the Medicaid program in relation to the percentage of Medicaid and indigent population the Health System serves. The Health System paid assessments of \$52,608,000 and \$50,175,000 in state provider tax during 2014 and 2013, respectively, which is presented in operating expenses within the accompanying consolidated financial statements.

Funding received in excess of costs to provide services to the Medicaid and indigent population may be refunded to the state for reallocation to other healthcare systems. The Health System received approximately \$55,775,000 and \$54,750,000 in 2014 and 2013, respectively, which is recorded in net patient service revenue in the accompanying consolidated financial statements. Currently, no funds are expected to be repaid to the state, however, it is reasonably possible that circumstances could change materially in the near term.

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Notes to Consolidated Financial Statements
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The Health System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and/or preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges and/or prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2014 and 2013, respectively, was approximately:

	2014	2013
Medicare	\$ 432,636,447	\$ 352,189,390
Medicaid	131,522,285	123,021,708
Commercial insurance	522,487,728	525,174,470
Patients	109,460,424	129,897,864
	<u>\$ 1,196,106,884</u>	<u>\$ 1,130,283,432</u>

Note 3: Concentrations of Credit Risk

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2014 and 2013, is:

	2014	2013
Medicare	16.1%	18.8%
Medicaid	8.0%	6.4%
Commercial insurance	51.3%	55.1%
Patients	24.6%	19.7%
	<u>100.0%</u>	<u>100.0%</u>

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Notes to Consolidated Financial Statements
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Note 4: Investments and Investment Return

Investments, at September 30, include:

	2014	2013
Cash and cash equivalents	\$ 50,587,730	\$241,202,516
Guaranteed investment contract	35,818,561	33,087,455
Certificates of deposit	5,824,555	17,641,806
Governmental obligations	153,658,698	100,733,965
Corporate obligations	103,694,417	91,593,714
Equity securities	51,574,585	61,516,232
Mutual funds – equity securities	123,384,575	153,030,529
Mutual funds – debt securities	675,581	1,056,800
Alternative investments	124,039,577	-
Assets under perpetual trusts	10,542,625	10,053,737
Other	2,992,482	2,556,614
Total investments	\$662,793,386	\$712,473,368

The guaranteed investment contract is primarily concentrated with one company in the financial guaranty insurance business. The insurance company is not required to maintain certain ratings by nationally recognized rating agencies. However, at September 30, 2014 and 2013, this insurance company was rated AA- and A1, and AA- and A1 by Standard & Poor's and Moody's, respectively.

Investments are included on the balance sheets as follows:

	2014	2013
Short-term investments	\$ 47,897,177	\$ 76,878,583
Assets limited as to use		
Internally designated	418,493,006	376,634,155
Externally restricted	56,306,864	52,101,375
Held by trustees	140,096,339	206,859,255
	\$662,793,386	\$712,473,368

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Notes to Consolidated Financial Statements
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Investment Return

Total investment return is comprised of the following:

	2014	2013
Interest and dividend income	\$ 12,794,971	\$ 12,638,093
Realized gains and losses on securities and investments accounted for under the fair value option of Topic 825	27,717,390	182,769
Unrealized gains (losses) on trading securities	(14,881,222)	31,997,183
Unrealized gains (losses) on other than trading securities	(530,456)	(652,864)
Change in beneficial interest in perpetual trust	488,887	92,354
Change in fair value of interest rate basis swap	3,876,160	(4,280,521)
Change in fair value of investments accounted for under the fair value option of Topic 825	3,083,270	-
	<u>\$ 32,549,000</u>	<u>\$ 39,977,014</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2014	2013
Unrestricted net assets		
Unrestricted revenues, gains and other support	\$ 4,578,144	\$ 1,729,912
Other income		
Investment return	35,026,738	10,362,656
Change in unrealized gains and losses on trading securities, fair value of interest basis swap, and fair value option of Topic 825	(7,921,792)	27,716,661
Change in unrealized gains and losses on other than trading securities	(530,456)	(652,864)
Temporarily restricted net assets	928,227	728,295
Permanently restricted net assets	468,139	92,354
	<u>\$ 32,549,000</u>	<u>\$ 39,977,014</u>

Investment return of \$4,578,144 and \$1,729,912 on unexpended debt proceeds limited as to use under bond indenture agreements, self-insurance trust earnings and short-term investments have been included in unrestricted revenues, gains and other support for the years ended September 30, 2014 and 2013, respectively.

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Notes to Consolidated Financial Statements

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Alternative Investments

Except as described below, the alternative investments have been estimated using the net asset value per share of the investments. Alternative investments held at September 30 consist of the following:

		September 30, 2014		
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (A)	\$ 3,408,312	\$ 16,565,842	None	None
Emerging markets all cap (B)	15,280,740	-	Monthly	30 days
Risk parity (C)	19,641,982	-	Monthly	15 days
Real assets (D)	13,907,638	-	Monthly	30 days
International small cap (E)	6,146,224	-	Daily	10 days
Emerging markets local currency debt (F)	9,062,353	-	Monthly	5 days
Real estate (G)	6,645,492	-	Quarterly	45 days
Real return (H)	8,828,922	-	Monthly	30 days
Hedge fund of funds (I)	41,117,914	-	**	**

**Subject to underlying funds redemption policy ranging from 15 to 90 days and underlying manager liquidity.

- (A) The objectives of the fund are to deliver superior risk-adjusted returns proactively sourcing attractive investments from across a broad spectrum of global private equity funds (primaries and secondaries) and co-investment opportunities and to achieve, over the life of the fund, long-term compounded net returns of at least 6% in excess of public equities as measured by the MSCI World Index. The fund has a lock-up period of 13 years as of the initial closing in December 2013, with up to two one-year extensions and the interest in the fund is nonredeemable.
- (B) The objectives of the fund are to achieve attractive benchmark-relative returns through investment in an emerging markets portfolio of primarily publicly traded equity securities and over-the-counter equity swaps. The fund also seeks to benefit from a broad universe of investment candidates including large-, mid- and small-cap stocks from which to make its selections and from exposure to markets which tend to be less efficient, both which offer potential for enhanced returns.
- (C) The objectives of the fund are to efficiently deliver exposure to a broadly diversified set of global risk premia covering equities, government bonds, commodities and credit. These include exposure to global developed and emerging stocks, developed government bonds, emerging market fixed income and emerging currencies, global inflation protected bonds, high yield and investment grade credit spreads, mortgage spreads and commodities, among other exposures.

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Notes to Consolidated Financial Statements September 30, 2014 and 2013

- (D) The objectives of the fund are to seek absolute total return by investing in income-generating publicly traded master limited partnerships, either directly or via equity swaps, with a particular focus on energy sector master limited partnerships and other C-Corporation energy infrastructure companies.
- (E) The objectives of the fund are to achieve long-term growth primarily from a diversified portfolio of small and mid-capitalization equity securities of companies located in any country other than the United States and Canada. The fund has defined small and mid-capitalization equity securities to be equity securities of companies with a market capitalization less than \$15 billion at time of their initial purchase.
- (F) The objectives of the fund are to seek current revenue and capital appreciation by investing in a diversified portfolio of emerging country debt, other securities linked to emerging country debt and money market instruments denominated in emerging country currencies. Emerging countries are defined as those designated, at the time the fund invests, as industrially developing countries by the International Monetary Fund, the World Bank, the International Finance Corporation or one of the leading investment banks or countries identified by the adviser that have similar characteristics to these countries.
- (G) The objectives of the fund are to generate attractive investment returns from a portfolio of equity investments in income producing real property. The fund offers a commingled fund vehicle with an established portfolio of high quality real estate investments, including active management of stable, well located properties among the four primary real estate sectors – apartment, industrial, office and retail – in major metropolitan markets throughout the continental United States.
- (H) The objectives of the fund are to seek to generate a total return in the long term through investments in commodity-related instruments globally. The fund may be exposed to a range of commodity sectors from time to time but anticipates that under current market conditions the fund will be primarily invested in the energy, agriculture and metals sectors. The fund may invest in a range of commodity-related investments including, for example, futures contracts, swaps, options, forward contracts, and structured notes and, to a lesser extent, equities, debt securities, convertible securities and warrants of issuers in commodity-related industries.
- (I) The objectives of the fund are to provide consistent, superior capital appreciation through the use of a multi-manager investment strategy. To achieve this objective, the fund will allocate its assets primarily among private investment vehicles and/or separate investment accounts (Portfolio Funds) which, in turn, are expected to invest primarily in publicly traded equity securities of United States and foreign issuers. Portfolio Funds may also invest in other securities, including debt securities, options and other derivative instruments. Portfolio Funds will be managed by U.S. and foreign-based professional investment managers selected for their specialized expertise and significant investment histories and/or prospects.

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Notes to Consolidated Financial Statements
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Note 5: Contributions Receivable

Contributions receivable, temporarily restricted by donors for the purposes of construction projects, consist of the following unconditional promises to give:

	2014	2013
Due within one year	\$ 1,139,118	\$ 1,155,156
Due in one to five years	2,545,000	3,067,500
Due in five to ten years	1,240,000	360,000
	<u>4,924,118</u>	<u>4,582,656</u>
Less		
Unamortized discount	<u>847,128</u>	<u>835,768</u>
	<u><u>\$ 4,076,990</u></u>	<u><u>\$ 3,746,888</u></u>

Discount rates ranged from 2% to 6% for 2014 and 2013.

Note 6: Property and Equipment

Property and equipment are stated at cost. A summary of cost by category and the related total accumulated depreciation follows:

	2014	2013
Land	\$ 32,924,518	\$ 32,232,570
Land improvements	26,106,821	25,635,780
Buildings	380,463,292	367,409,478
Fixed equipment	213,425,573	204,273,947
Major movable equipment	380,045,008	360,186,641
Construction in progress	72,697,336	16,086,693
	<u>1,105,662,548</u>	<u>1,005,825,109</u>
Less accumulated depreciation	<u>623,648,339</u>	<u>587,257,302</u>
	<u><u>\$ 482,014,209</u></u>	<u><u>\$ 418,567,807</u></u>

At September 30, 2014, construction in progress represents costs incurred in connection with the Cox South patient tower and the Cox Branson expansion. The total cost of the projects in progress at September 30, 2014, is estimated to be approximately \$150,300,000 representing an additional commitment to complete the projects of approximately \$89,500,000, which will be funded by bond proceeds outstanding from the 2013 bond issuance.

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Notes to Consolidated Financial Statements
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Note 7: Beneficial Interest in Perpetual Trusts

The Health System is an income beneficiary of perpetual trusts controlled by unrelated third-party trustees. The beneficial interest in the assets of these trusts are included in the Health System's financial statements as an asset externally restricted by a donor and part of permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in contributions. The estimated value of the expected future cash flows is \$10,542,625 and \$10,053,737, which represents the fair value of the trust assets at September 30, 2014 and 2013, respectively.

Note 8: Professional Liability Claims

The Health System is primarily insured for professional liability claims, comprehensive general liabilities, employee health care and worker's compensation. The Health System purchases a claims-made policy for malpractice claims in excess of self-insured limits that covers individual claims in excess of \$4 million or \$30 million total policy limits. Effective February 1, 2010, the total policy limit increased to \$40 million. Losses from asserted and unasserted claims identified under the Health System's incident reporting system are accrued based on estimates that incorporate the Health System's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Based upon the Health System's claims experience, an accrual has been made for the Health System's estimated malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$27,100,000 and \$31,900,000 as of September 30, 2014 and 2013, respectively. Management is vigorously contesting the current claims and believes the accrued liability for self-insured claims is sufficient to cover probable losses. However, given the nature of the claims and the uncertainties involved, it is possible that management's estimate of ultimate losses for self-insured claims may change materially in the near term.

Cox-Branson purchased professional liability insurance under a claims-made policy on a retrospectively rated premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. It is reasonably possible that this estimate could change materially in the near term. Effective October 1, 2013, Cox-Branson joined the Health System's professional liability plan.

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Activity in the Health System's accrued self-insurance liabilities during 2014 and 2013 is summarized as follows:

	2014	2013
Balance, beginning of year	\$ 45,268,380	\$ 45,375,650
Liabilities assumed	-	1,210,286
Current year claims incurred and change in estimates for claims incurred in prior years	52,875,136	52,691,999
Claims and expenses paid	<u>(57,971,938)</u>	<u>(54,009,555)</u>
Balance, end of year	<u><u>\$ 40,171,578</u></u>	<u><u>\$ 45,268,380</u></u>

Note 9: Long-Term Debt

Long-term debt consists of the following:

	2014	2013
Medical Centers -		
Health Facilities Revenue Bonds Series H 1992 (A)	\$ 33,450,574	\$ 31,317,173
Health Facilities Revenue Bonds Series I 1993 (B)	6,430,000	10,865,000
Health Facilities Revenue Bonds Series 2008A (C)	162,500,000	162,500,000
Health Facilities Revenue Bonds Series 2008B (D)	70,000,000	70,000,000
Health Facilities Revenue Bonds Series 2008C (E)	34,505,000	34,635,000
Health Facilities Revenue Bonds Series 2013 (F)	201,475,000	201,475,000
Health Facilities Revenue Note (G)	1,641,809	2,174,986
Capital leases (H)	10,396,304	8,340,298
Purchase Agreement (I)	5,583,529	6,027,390
Note payable (J)	5,577,500	5,635,000
Cox-Branson Hospital -		
Capital leases (K)	9,928,306	9,488,969
Notes payable (L)	5,147,751	4,877,748
Cox-Monett Hospital -		
Capital leases (M)	155,145	73,226
	<u>546,790,918</u>	<u>547,409,790</u>
Less unamortized bond discount (premium)	(9,415,135)	(9,675,482)
Less current maturities	<u>14,160,935</u>	<u>15,932,743</u>
	<u><u>\$ 542,045,118</u></u>	<u><u>\$ 541,152,529</u></u>

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Notes to Consolidated Financial Statements
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- (A) Series H bonds issued in 1992 in the original amount of \$20,347,292, which are capital appreciation bonds bearing interest at 4.25% to 6.7%. The bonds were to accrete to a peak amount of \$61,128,095, but a portion of the proceeds from the Series 2002 Variable Rate Demand Bonds was used to extinguish the Current Interest Serial Bonds and the Current Interest Term Bonds associated with the Series H Bonds. The total amount extinguished with proceeds from the Series 2002 Variable Rate Demand Bonds was \$5,755,000. During 2008, the Health System defeased 37.9% or \$13,685,080 of the Series H bonds maturing in years 2016 through 2022 using existing cash and investments. The defeasance will result in a reduction in annual debt service of approximately \$4 million in each of the years in which such Series H bonds mature. With the 2008 defeasance, the bonds will now accrete to a peak amount of \$45,849,773 in 2022.
- (B) Series I Bonds issued in 1993 in the original amount of \$60,865,000, which bear interest at 2.6% to 5.35%. The bonds are due in graduated installments from June 1, 1994, to June 1, 2015.
- (C) Series 2008A bonds, issued on September 10, 2008, in the original amount of \$162,500,000, with an original issue discount of \$5,421,241. These bonds bear interest rates at 5.0% to 5.5% and mature between November 15, 2022, and November 15, 2039. The proceeds of the 2008A bonds were used to redeem the 1997, 2002 Variable Rate Demand Bonds, a portion of the 1992 Series H bonds and fund certain construction and remodeling projects.
- (D) Variable Rate Demand Revenue Bonds, Series 2008B, issued on October 15, 2008, in the original amount of \$70,000,000. The interest rate was 0.7037% and 0.09% at September 30, 2014 and 2013, respectively. The bonds are due in graduated installments from November 15, 2023, through November 15, 2044. The proceeds of the 2008B bonds were used to fund certain construction and remodeling projects.

On December 18, 2013, the Health System completed a mode conversion of the Variable Rate Demand Revenue Bonds, Series 2008B to an indexed put mode. Upon conversion the bonds were directly purchased by a financial institution, thereby, replacing the prior requirement to maintain a letter-of-credit facility. The Series 2008B Bonds will bear interest at 68% of the 30-day LIBOR index rate plus 60 basis points through the initial indexed put period ending December 3, 2018. At such time, the Health System may enter into a new indexed put-rate period with the current or a replacement financial institution or seek other mode conversion options.

- (E) Variable Rate Demand Revenue Bonds, Series 2008C, issued on October 15, 2008, in the original amount of \$35,000,000. The interest rate was 0.8125% at September 30, 2014 and 2013. The bonds are due in graduated installments from November 15, 2012, through November 15, 2044. The proceeds of the 2008C bonds were used to fund certain construction and remodeling projects.

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Notes to Consolidated Financial Statements

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On December 1, 2012, the Health System completed a mode conversion of the Variable Rate Demand Revenue Bonds, Series 2008C to an indexed put mode. Upon conversion the bonds were directly purchased by a financial institution, thereby, replacing the prior requirement to maintain a letter-of-credit facility. The Series 2008C Bonds will bear interest at the LIBOR index rate through the initial indexed put period ending December 1, 2017. At such time, the Health System may enter into a new indexed put-rate period with the current or a replacement financial institution or seek other mode conversion options.

- (F) Series 2013A bonds, issued on April 17, 2013, in the original amount of \$201,475,000, with an original issue premium of \$14,289,775. These bonds bear interest rates at 5.0% to 5.5% and mature between November 15, 2016, and November 15, 2048. The proceeds of the 2013A bonds were used to redeem The Skaggs Community Hospital Association d/b/a Skaggs Regional Medical Center Series 1998 and 2005 Hospital Revenue Bonds and fund certain construction and remodeling projects.

The Medical Center's Health Facilities Revenue Bonds, Series H 1992 and Series I 1993 are insured by a municipal bond guaranty policy which insures payment of interest and principal at stated maturity or pursuant to scheduled mandatory redemption provisions subject to certain restrictions.

The Medical Center's bonds are secured by all tangible personal property of the institution, including all fixtures, furnishings, machinery and equipment constituting part of the south facility and certain equipment located at the north facility. The bonds are also secured by all revenue and proceeds of the operations of the facilities excluding only gifts, grants, bequests, donations and contributions to the Medical Centers and the income and gains derived therefrom which are specifically restricted by the donor or grantor to a particular purpose other than payment of the bonds.

The Obligated Group member for all of the outstanding bonds at September 30, 2014 and 2013, is Lester E. Cox Medical Centers and Cox Medical Center Branson. The indenture agreements require that certain funds be established with the trustees. Accordingly, these funds are included as assets limited as to use held by trustee in the financial statements. The bond indenture agreements require the Obligated Group to comply with certain restrictive covenants including minimum insurance coverage, maintaining financial ratios above specified levels and restrictions on incurrence of additional indebtedness.

- (G) Revenue note issued in 2007 in the original amount of \$5,000,000, bearing interest at 4.32%. The note is payable in monthly installments of \$51,393 beginning August 2007 through July 2017 and secured by the equipment purchased.
- (H) Capital leases for various equipment, payable in monthly installments through 2021. The capital leases bear imputed interest rates between 1% to 4% and are secured by the equipment.

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- (I) Purchase agreement notes payable dated September 1, 1997, payable in annual installments ranging from \$169,407 to \$3,475,529 through September 2035. The notes bear interest at 8% annually.
- (J) Promissory note in connection with the purchase of a specialty clinic in the original amount of \$5,750,000, dated January 5, 2011, bearing interest at 2.5%. The note is payable in annual installments ranging from \$57,500 to \$2,012,500 through December 2030.
- (K) Capital leases for various equipment, payable in monthly installments through 2024. The capital leases bear imputed interest rates between 1% to 8% and are secured by the equipment.
- (L) Notes payable in monthly installments through 2014. The notes payable bear interest rates between 0% to 3% and are secured by the equipment.
- (M) Capital leases for equipment payable through 2017 and secured by the equipment.

Aggregate annual maturities of long-term debt at September 30, 2014, are:

	Scheduled Maturities Based on Loan Agreements
2015	\$ 14,160,935
2016	14,772,978
2017	10,229,233
2018	8,884,050
2019	11,092,561
Thereafter	497,066,296
	<u><u>\$ 556,206,053</u></u>

Advanced Refunding

The proceeds from the 2008A bond offering by the Health System were used to advance refund a portion of the 1992 Series H bonds. Proceeds sufficient to cover repayment of the bond offerings were placed in escrow with a bond trustee and upon making the advance refunding deposits with the bond trustee, the Health System has no further obligation under the financing documents and has been released from the liability. Accordingly, the outstanding obligations related to this bond offering and the related escrow deposit are not reflected in the accompanying consolidated financial statements. The outstanding obligations and escrow deposit related to this bond offering is \$20,312,574 and \$25,361,560, respectively, at September 30, 2014.

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Notes to Consolidated Financial Statements

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Note 10: Interest Rate Basis Swap

The Medical Centers entered into an interest rate basis swap agreement which has not been designated as a hedging instrument. The swap agreement provides for the Medical Centers to receive variable rates of interest from and to pay variable rates of interest to the counterparty on the notional amount of \$200,000,000. The pay rate on the notional amount is SIFMA (Securities Industry and Financial Markets Association Municipal Swap Index), and the Medical Centers receives 67% of three-month USD-LIBOR-BBA plus 0.445%. The LIBOR rate was .60% and .62%, respectively, at September 30, 2014 and 2013. The BBA rate was .04% and .06%, respectively, at September 30, 2014 and 2013. Under the agreement, the Medical Centers pays or receives the net interest amount monthly with the monthly settlements included in investment return.

The interest rate basis swap agreement is carried at fair value based on quoted market prices and changes in fair value are included in excess of revenues over expenses. The carrying amount of the swap agreement is \$(3,669,601) and \$(7,545,761) at September 30, 2014 and 2013, respectively. The Medical Centers is not subject to collateral requirements based on the fair value of the swap agreement.

Note 11: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Health care services		
Health education	\$ 2,386,840	\$ 2,082,943
Indigent care	7,604,437	7,086,670
Health services	2,517,090	2,497,968
Construction projects	7,078,105	5,410,857
Research and other	1,434,641	1,140,925
	<u>\$ 21,021,113</u>	<u>\$ 18,219,363</u>

During 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$3,224,984 and \$3,118,018, respectively. During 2014 and 2013, net assets of \$643,040 and \$414,549, respectively, were released to purchase property and equipment.

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Permanently restricted net assets are restricted to:

	<u>2014</u>	<u>2013</u>
Investments to be held in perpetuity, the income is restricted to be spent only for the donor's intended purpose	<u>\$ 18,932,140</u>	<u>\$ 18,407,568</u>

Note 12: Charity Care

The estimated cost of charity care provided under the Health System's charity care policy was approximately \$41,639,000 and \$29,002,000 for 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to charges to the gross uncompensated care charges.

Note 13: Functional Expenses

The Health System provides health care services to residents within its service area. Expenses related to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 934,834,778	\$ 893,767,792
General and administrative	216,603,571	192,691,955
Cox Health Systems Insurance Company and HMO health claims expense	<u>72,987,240</u>	<u>64,217,376</u>
	<u>\$ 1,224,425,589</u>	<u>\$ 1,150,677,123</u>

Note 14: Operating Leases

Rental expense under operating lease agreements for various physician clinic buildings and equipment totaled approximately \$16,200,000 and \$17,600,000 for the years ended September 30, 2014 and 2013, respectively.

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Future minimum payments required under noncancellable operating leases for various physician clinic buildings and equipment at September 30, 2014, are summarized as follows:

2015	\$ 8,135,125
2016	5,751,487
2017	1,823,296
2018	1,027,782
2019	946,740
Thereafter	<u>2,888,805</u>
	<u>\$ 20,573,235</u>

Note 15: Significant Commitments

During the year ended September 30, 2012, the Health System and Cerner formed a strategic alignment, Si3 – The Star Initiative for Information and Innovation, dedicated to transforming health information in the region, enhancing clinical processes and health care delivery capabilities and positioning the Health System for future growth and advancement. With this alignment, Cerner will assume operational and administrative responsibilities for the Health System's information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective as of October 2012 for an initial term of 10 years. At the end of the initial term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at September 30, 2014, are summarized as follows:

2015	\$ 21,286,712
2016	22,102,398
2017	22,890,976
2018	23,650,631
2019	24,395,032
Thereafter	<u>75,618,019</u>
	<u>\$ 189,943,768</u>

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Note 16: Pension Plans

Defined Benefit Pension Plan

The Health System has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. Effective April 25, 2009, an amendment was enacted to freeze the plan, whereby no further benefits will be accrued under the plan. The Health System makes contributions to the plan in conformity with the required level of funding determined by the plan's actuary. The Health System expects to contribute approximately \$6,000,000 to the plan in 2015.

The Health System uses a September 30 measurement date for the plan. Information about the plan's funded status follows:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation		
Beginning of year	\$ 276,702,054	\$ 309,781,296
Interest cost	12,838,051	11,698,261
Actuarial (gain) loss	38,480,218	(36,666,006)
Benefits paid	<u>(8,421,335)</u>	<u>(8,111,497)</u>
End of year	<u>319,598,988</u>	<u>276,702,054</u>
Change in fair value of plan assets		
Beginning of year	229,806,398	193,990,434
Actual return on plan assets	16,338,355	31,427,461
Employer contribution	6,000,000	12,500,000
Benefits paid	<u>(8,421,335)</u>	<u>(8,111,497)</u>
End of year	<u>243,723,418</u>	<u>229,806,398</u>
Funded status at end of year	<u>\$ (75,875,570)</u>	<u>\$ (46,895,656)</u>
Amounts recognized in the balance sheets		
Noncurrent accrued pension liability	<u>\$ (75,875,570)</u>	<u>\$ (46,895,656)</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	<u>2014</u>	<u>2013</u>
Net loss	<u>\$ (109,177,897)</u>	<u>\$ (71,324,439)</u>

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Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2014	2013
Projected benefit obligation	<u>\$ 319,598,988</u>	<u>\$ 276,702,054</u>
Accumulated benefit obligation	<u>\$ 319,598,988</u>	<u>\$ 276,702,054</u>
Fair value of plan assets	<u>\$ 243,723,418</u>	<u>\$ 229,806,398</u>
Components of net periodic benefit cost		
Interest cost	\$ 12,838,051	\$ 11,698,261
Expected return on plan assets	(17,101,415)	(14,461,143)
Amortization of net loss	<u>1,389,820</u>	<u>2,978,721</u>
Net periodic benefit cost	<u>\$ (2,873,544)</u>	<u>\$ 215,839</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	2014	2013
Net (gain) loss	\$ 39,243,278	\$ (53,632,324)
Amortization of net loss	<u>(1,389,820)</u>	<u>(2,978,721)</u>
Total recognized in unrestricted net assets	<u>\$ 37,853,458</u>	<u>\$ (56,611,045)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$2,339,230.

Significant assumptions include:

	2014	2013
Weighted average assumptions used to determine benefit obligations		
Discount rate	4.26%	4.72%
Rate of compensation increase	0.00%	0.00%
Weighted average assumptions used to determine benefit costs		
Discount rate	4.72%	3.83%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The Health System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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The Health System adopted the new mortality assumptions released in October 2014. This change in the mortality assumptions increased the Health System's actuarial loss an additional \$17,500,000 at September 30, 2014.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2014 and 2013 are as follows:

Growth	50-70%
Income	20-40%
Diversification	0-20%

Growth assets include: Domestic equity, international equity, emerging market debt, high-yield bonds, energy-related master limited partnerships, private equity/debt, hedge fund-growth and risk parity investments.

Income assets include: Core fixed income, senior loans, core real estate and hedge funds-income investments.

Diversification assets include: Inflation-linked bonds (TIPS), long-term Treasury bonds, commodities, hedge funds-diversification and cash investments.

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Health System expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Health System does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

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Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer (CFO). The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014				
Money market	\$ 2,535,044	\$ 2,535,044	\$ -	\$ -
Governmental obligations	24,811,606	-	24,811,606	-
Corporate bonds	14,565,029	-	14,565,029	-
Alternative investments	116,777,149	926	52,495,425	64,280,798
Equity securities				
Materials and industrial	4,769,583	4,769,583	-	-
Consumer discretionary	5,055,952	5,055,952	-	-
Financial industry	5,368,628	5,368,628	-	-
Health care	3,204,317	3,204,317	-	-
Information technology	4,652,164	4,652,164	-	-
Other industries	3,370,776	3,370,776	-	-
Mutual funds - equity				
Domestic equity	30,073,402	30,073,402	-	-
International funds	28,539,768	28,539,768	-	-
September 30, 2013				
Money market	\$ 9,929,383	\$ 9,929,383	\$ -	\$ -
Governmental obligations	43,211,031	-	43,211,031	-
Corporate bonds	15,075,877	-	15,075,877	-
Equity securities				
Materials and industrial	11,282,543	11,282,543	-	-
Consumer discretionary	4,504,282	4,504,282	-	-
Financial industry	6,515,047	6,515,047	-	-
Health care	3,839,510	3,839,510	-	-
Information technology	9,778,993	9,778,993	-	-
Other industries	5,923,735	5,923,735	-	-
Mutual funds - equity				
Domestic equity	72,831,126	72,831,126	-	-
International funds	46,914,871	46,914,871	-	-

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Alternative Investments 2014
Balance, October 1	\$ -
Purchases	62,100,000
Total realized and unrealized gains and losses included in change in net assets	<u>2,180,798</u>
Balance, September 30	<u>\$ 64,280,798</u>
Total gains or losses for the year included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date reported in the statement of operations as a component of excess of revenues over expenses	<u>\$ 2,180,798</u>

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Alternative Investment – Real Assets

The significant unobservable inputs used in the fair value measurement are the underlying estimated value of real estate holdings.

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Alternative Investment - Private Equity/Hedge Funds

The significant unobservable inputs used in the fair value measurement are fund assets that are invested in portfolio funds which are valued in accordance with the terms and conditions of the respective partnership agreement, investment advisory agreement or similar agreement as agreed to by the investment advisor, in its discretion. Such values are supplied to the fund by the portfolio managers or administrators of the underlying portfolio funds. The total net asset value of the fund at any date shall be determined on the accrual basis of accounting using United States generally accepted accounting principles.

The fair values of the Health System's pension plan assets at September 30, 2014 and 2013, by asset class are as follows:

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. government obligations, alternative investments and other specified investments, based on certain target allocation percentages.

The following benefit payments expected to be paid as of September 30, 2014:

2015	\$ 10,476,293
2016	11,581,672
2017	12,602,069
2018	13,497,942
2019	14,680,168
2020 - 2024	85,542,526

Defined Contribution Plans

The Health System has a 403(b) retirement plan which covers eligible employees. Contributions to the plan are made by the Health System and participants. The Health System matches up to 5% of the participant's qualifying compensation and discretionary contributions, as approved by the Health System's Board of Directors. The Health System's contributions to the plan were \$12,401,882 and \$10,598,534 for the years ended September 30, 2014 and 2013, respectively. The Health System accrued an additional discretionary contribution of \$1,000,000 and \$0 in 2014 and 2013, respectively.

The Health System provides certain employees of Ferrell-Duncan Clinic a defined contribution retirement plan. The Health System contributes a percentage of wages for each eligible employee. The Health System's contributions to the plan were \$346,202 and \$378,158 for the years ended September 30, 2014 and 2013, respectively.

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The Health System also provides 457(b) and 457(f) deferred compensation plans. The plans are eligible to full-time physicians and management of the Health System. The plans consist of salary reduction only and there are no contributions by the Health System. Under the terms of the plans, the deferred compensation liability and related assets limited as to use are recorded by the Health System and are subject to the general creditors of the Health System. At September 30, 2014 and 2013, the investment balance in these plans is \$10,960,226 and \$9,342,911, respectively.

Note 17: Related Party Transactions

The Health System has two lease agreements with an employed physician group under a contractual arrangement for approximately 200,000 square feet of building clinical space. The lease payments are adjusted annually based on the increase in the Consumer Price Index and expire on September 1, 2016. Lester E. Cox Medical Centers has rental expense with this group of \$4,680,378 and \$4,826,014 in 2014 and 2013, respectively.

Note 18: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2014 and 2013:

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		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014				
Money market funds	\$ 50,587,730	\$ 50,587,730	\$ -	\$ -
Governmental obligations	153,658,698	-	153,658,698	-
Corporate obligations	103,694,417	-	103,694,417	-
Equity securities				
Materials and industrial	8,435,968	8,435,968	-	-
Consumer discretionary	9,819,931	9,819,931	-	-
Financial industry	10,142,561	10,142,561	-	-
Health care	6,426,735	6,426,735	-	-
Information technology	8,870,016	8,870,016	-	-
Other industries	7,879,374	7,246,140	633,234	-
Mutual funds - equity				
Domestic equity	61,429,583	61,429,583	-	-
International funds	61,954,992	61,954,992	-	-
Mutual funds - fixed income	675,581	675,581	-	-
Beneficial interest in perpetual trusts	10,542,625	-	10,542,625	-
Alternative investments	124,039,577	-	58,960,221	65,079,356
Interest rate basis swap agreement	(3,669,601)	-	(3,669,601)	-
September 30, 2013				
Money market funds	\$ 241,202,516	\$ 241,202,516	\$ -	\$ -
Governmental obligations	100,733,965	-	100,733,965	-
Corporate obligations	91,593,714	-	91,593,714	-
Equity securities				
Materials and industrial	16,811,785	16,811,785	-	-
Consumer discretionary	6,296,028	6,296,028	-	-
Financial industry	9,622,867	9,622,867	-	-
Health care	5,475,487	5,475,487	-	-
Information technology	14,495,507	14,495,507	-	-
Other industries	8,814,558	8,814,558	-	-
Mutual funds - equity				
Domestic equity	98,565,717	98,565,717	-	-
International funds	54,464,812	54,464,812	-	-
Mutual funds - fixed income	1,056,800	1,056,800	-	-
Beneficial interest in perpetual trusts	10,053,797	-	10,053,797	-
Interest rate basis swap agreement	(7,545,761)	-	(7,545,761)	-

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Health System expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Health System does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer (CFO). The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

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	Alternative Investments 2014
Balance, October 1	\$ -
Purchases	62,531,308
Distributions	(68,193)
Total realized and unrealized gains and losses included in change in net assets	<u>2,616,241</u>
Balance, September 30	<u><u>\$ 65,079,356</u></u>
Total gains or losses for the year included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date reported in the statement of operations as a component of excess of revenues over expenses	<u><u>\$ 2,614,220</u></u>

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Alternative Investment – Real Assets

The significant unobservable inputs used in the fair value measurement are the underlying estimated value of real estate holdings.

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Alternative Investment - Private Equity/Hedge Funds

The significant unobservable inputs used in the fair value measurement are fund assets that are invested in portfolio funds which are valued in accordance with the terms and conditions of the respective partnership agreement, investment advisory agreement or similar agreement as agreed to by the investment advisor, in its discretion. Such values are supplied to the fund by the portfolio managers or administrators of the underlying portfolio funds. The total net asset value of the fund at any date shall be determined on the accrual basis of accounting using United States generally accepted accounting principles.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Health System's financial statements and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2014 and 2013:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Carrying Value		
September 30, 2014				
Financial assets				
Cash and cash equivalents	\$ 126,224,251	\$ 126,224,251	\$ -	\$ -
Contributions receivable	4,076,990	-	4,076,990	-
Investments	618,157,788	225,589,237	327,489,195	65,079,356
Financial liabilities				
Long-term debt excluding capital lease obligations	(535,726,298)	(572,951,141)	-	-
Interest rate basis swap agreement	(3,669,601)	-	(3,669,601)	-
September 30, 2013				
Financial assets				
Cash and cash equivalents	\$ 75,596,714	\$ 75,596,714	\$ -	\$ -
Contributions receivable	3,746,888	-	3,746,888	-
Investments	659,187,553	456,806,077	202,381,476	-
Financial liabilities				
Long-term debt excluding capital lease obligations	(539,182,779)	(550,195,093)	-	-
Interest rate basis swap agreement	(7,545,761)	-	(7,545,761)	-

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated at the present value of the future payments expected to be received.

Notes Payable and Long-Term Debt Excluding Capital Lease Obligations

Fair value is estimated based on the borrowing rates currently available to the Health System for bank loans with similar terms and maturities. Fair value of bonds payable is determined based on quoted market prices.

Interest Rate Basis Swap Agreement

The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified with Level 2 of the valuation hierarchy.

Note 19: The Fair Value Option

As permitted by Topic 825, the Health System has elected to measure alternative investments at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of the Health System.

See *Note 18* for additional disclosures regarding fair value of each of the consolidated balance sheet line items listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for items for which the fair value option has been elected are reported as changes in unrealized gains and losses on fair value option of Topic 825 in the financial statements. The change for 2014 and 2013 was \$3,083,270 and \$0, respectively, which reflects the unrealized gains and losses of the alternative investments for which the fair value option has been elected. Realized gains and losses of alternative investments are recognized as component of investment return.

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Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Self-Insurance Claims

Estimates related to the accrual for self-insurance claims are described in *Notes 1* and *8*.

Legal Contingencies

In the normal course of business, the Health System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Health System's self-insurance program or by commercial insurance; for example, allegations regarding employment practices, billing arrangements or performance of contracts. The Health System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of the ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Pension Benefit Obligation

The Health System has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimate of this liability materially in the near term.

Investments

The Health System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

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Note 21: Other Long-Term Liabilities

During the year ended September 30, 2010, the Health System entered into a sponsorship agreement with a local university over a period of twenty years. In consideration of the sponsorship agreement, the Health System has agreed to pay the university \$1,500,000 over a five-year period in payments of \$300,000 per year. The amount outstanding relating to this agreement is \$0 and \$300,000 at September 30, 2014 and 2013, respectively.

Due to changes in the Affordable Care Act regulations, Cox Health Systems Insurance Company recorded an asset life reserve in association with its individual life insurance policies. The asset life reserve will better match the premium revenues earned with claims expense incurred over the duration of the policies. The reserve is \$3,900,000 and \$2,800,000 at September 30, 2014 and 2013, respectively.

Note 22: 340B Outpatient Drug Discount Program

The Health System participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). Under this program, the Health System received approximately \$11,500,000 and \$11,400,000 in benefits generated from purchases of outpatient pharmaceuticals in 2014 and 2013, respectively. The benefit is presented as a reduction of supplies and other expenses within the consolidated statement of operations.

Note 23: Acquisition of The Skaggs Community Hospital Association d/b/a Skaggs Regional Medical Center

In September 2012, the Board of Trustees for The Skaggs Community Hospital Association, d/b/a Skaggs Regional Medical Center (the "Acquiree"), a hospital in neighboring Branson, Missouri, voted in favor of establishing a strategic partnership with CoxHealth. With this partnership, CoxHealth became the parent company of Skaggs Regional Medical Center effective January 1, 2013, and was renamed Cox Medical Center Branson.

Subject to the terms and conditions contained in the affiliation agreement, CoxHealth will make a one-time cash contribution in the amount of \$25,000,000 to the Skaggs Foundation, a Missouri not-for-profit corporation. Additionally, CoxHealth will provide restricted contributions to the Skaggs Foundation in the amount of \$10,500,000 for the sole purpose of supporting the needs of Cox Medical Center Branson and \$1,000,000 for scholarships.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

**Recognized Amounts of Identifiable Assets Acquired
and Liabilities Assumed**

Current assets	\$ 44,869,251
Assets limited as to use	27,876,415
Long-term receivables	113,543
Property, plant and equipment	78,841,496
Other assets	1,770,396
Total assets	<u>153,471,101</u>
Current liabilities	14,861,446
Long-term debt	47,131,486
Total liabilities	<u>61,992,932</u>
Cash paid	<u>26,000,000</u>
Total inherent contribution received	<u><u>\$ 65,478,169</u></u>
Summary of contributions received by net asset classification	
Unrestricted contribution received	\$ 56,806,570
Temporarily restricted contributions received	1,274,848
Permanently restricted contributions received	<u>7,396,751</u>
	<u><u>\$ 65,478,169</u></u>

The acquisition resulted in an inherent contribution received of \$65,478,169, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed. This amount has been included in other income, temporarily and permanently restricted contribution in the consolidated statement of operations and changes in net assets, based on net asset restrictions.

Cox-Branson Medical Center contributed revenues of \$116,644,305, deficiency of revenues over expenses of \$1,158,370, and changes in unrestricted, temporarily restricted and permanently restricted net assets of \$81,648,200, \$1,263,338 and \$8,010,611 to the Health System for the period from the affiliation date through September 30, 2013, before eliminations.

CoxHealth
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Note 24: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Missouri has currently indicated it will not expand the Medicaid program at this time, which may result in revenues from newly covered individuals not offsetting the Health System's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Health System's net patient service revenue. Additionally, it is possible the Health System will experience payment delays and other operational challenges during PPACA's implementation.

Note 25: Subsequent Events

Change in Corporate Structure

In January 2015, the Health System reorganized its corporate structure by forming the following new entities:

CoxHealth, a nonprofit corporation (CoxHealth). CoxHealth will become the parent company for Lester E. Cox Medical Centers and its wholly owned affiliates, and Cox Medical Group.

Cox Medical Group, a nonprofit corporation. Cox Medical Group will be the sole member of the Cox Taxable Close Corporation, a for-profit entity, that will be the sole shareholder of FDCI once the acquisition is completed.

Acquisition of Ferrell Duncan Company, Inc.

In September 2014, the newly formed CoxHealth signed a letter of intent with Ferrell-Duncan Clinic, Inc. (FDCI), in which FDCI would become a wholly owned affiliate of CoxHealth as a part of Cox Medical Group. The affiliation will allow for deeper clinical integration, community benefits, patient care improvement and economies for CoxHealth and its existing affiliates and FDCI. CoxHealth and FDCI finalized their transaction on December 31, 2014.

CoxHealth

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 26: Restatement of Consolidated Financial Statements

In February 2015, the American Institute of Certified Public Accountants (AICPA) issued an interpretation of the effect on pension obligations due to the new mortality tables on nongovernmental entities that sponsor employee benefit plans. The interpretation stated that the new mortality tables published by the Society of Actuaries in late October 2014, should be considered when selecting pension plan assumptions, if financial statements were not yet available to be issued. The updated mortality tables are applicable to periods prior to their publication as they are based on historical trends and data that go back many years, updating mortality conditions from previously available mortality tables.

Based on the AICPA's interpretation, as the Health System's consolidated financial statements were not yet available to be issued prior to the publication of the updated mortality tables and the updated mortality assumptions were considered significant to the overall accrued pension liability at the Health System, the Health System has considered the inclusion of the updated mortality assumptions as a recognizable subsequent event and recorded an adjustment to restate the previously issued consolidated financial statements as of September 30, 2014. The restatement had no impact on prior periods.

The following consolidated financial statement line items for 2014 were affected by the restatement.

	As Restated	As Previously Reported	Effect of the Change
Balance Sheet			
Accrued pension liability	\$ 75,875,570	\$ 58,430,915	\$ 17,444,655
Total liabilities	840,730,722	823,286,067	17,444,655
Unrestricted net assets	634,508,141	651,952,796	(17,444,655)
Total net assets	674,461,394	691,906,049	(17,444,655)
Statement of Operations and Changes in Net Assets			
Change in defined benefit pension plan gains and losses and prior service costs	(37,853,458)	(20,408,803)	(17,444,655)
Increase in unrestricted net assets	10,910,425	28,355,080	(17,444,655)
Change in net assets	14,236,747	31,681,402	(17,444,655)
Net assets, end of year	674,461,394	691,906,049	(17,444,655)
Statement of Cash Flows			
Change in net assets	14,236,747	31,681,402	(17,444,655)
Change in defined benefit pension plan gains, losses and prior service costs	37,853,458	20,408,803	17,444,655

Supplementary Information

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2014

Assets

	Medical Centers	Cox- Branson	Cox- Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	CoxHealth Entities	Eliminations	Total
Current Assets								
Cash and cash equivalents	\$ 61,108,011	\$ 31,472,983	\$ (75,797)	\$ 24,789,758	\$ 1,651,517	\$ 7,278,679	\$ -	\$ 126,224,251
Short-term investments	43,787,412	107,736	-	4,002,029	-	-	-	47,897,177
Assets limited as to use – current	19,442,152	1,004,964	-	-	-	-	-	20,447,116
Patient accounts receivable, net of allowance	131,288,489	22,842,768	3,688,087	-	-	7,994,189	(6,711,515)	159,102,918
Estimated amounts due from third-party payers	237,860	2,232,432	288,825	-	-	-	-	2,759,117
Other receivables	21,464,289	409,092	-	3,451,791	-	1,478,394	(21,875,780)	4,927,786
Contributions receivable – current	-	-	4,916	-	1,134,202	-	-	1,139,118
Supplies	11,983,158	1,936,089	364,166	-	11,164	1,388,509	-	15,683,086
Prepaid expenses	4,695,730	1,213,282	48,749	1,233,934	-	524,266	(1,284,803)	6,431,158
Total current assets	294,007,101	61,218,446	4,318,946	33,477,512	2,796,883	18,664,037	(29,872,098)	384,610,827
Assets Limited As To Use								
Investments								
Internally designated								
Building fund investments and other	203,322,303	17,521,597	-	11,270,270	461,188	14,627,656	-	247,203,014
Donated investments	171,289,992	-	-	-	-	-	-	171,289,992
Externally restricted								
Donor restricted	4,107,482	9,813,169	-	-	20,578,599	1,241,707	-	35,740,957
Under deferred compensation agreement	10,960,226	-	-	-	-	-	-	10,960,226
Required statutory reserves	-	-	-	9,605,681	-	-	-	9,605,681
Held by trustees								
Self-insurance trust investments	32,891,980	-	-	-	-	-	-	32,891,980
Under bond indenture agreements	96,590,325	10,614,034	-	-	-	-	-	107,204,359
Less amount required to meet current obligations	519,162,308	37,948,800	-	20,875,951	21,039,787	15,869,363	-	614,896,209
	19,442,152	1,004,964	-	-	-	-	-	20,447,116
	499,720,156	36,943,836	-	20,875,951	21,039,787	15,869,363	-	594,449,093
Contributions receivable								
	499,720,156	36,943,836	-	-	2,937,872	-	-	2,937,872
				20,875,951	23,977,659	15,869,363	-	597,386,965
Long-Term Receivables								
	16,089,046	-	-	-	-	8,317,680	(14,326,492)	10,080,234
Interest in Net Assets of Subsidiaries								
	185,861,444	-	-	-	-	-	(185,861,444)	-
Property and Equipment, At Cost	946,337,276	108,258,837	26,197,827	6,949,760	-	17,918,848	-	1,105,662,548
Less accumulated depreciation	576,663,167	11,812,553	17,502,100	6,312,124	-	11,358,395	-	623,648,339
	369,674,109	96,446,284	8,695,727	637,636	-	6,560,453	-	482,014,209
Goodwill and Intangible Assets								
	25,252,061	689,000	-	-	-	100,000	-	26,041,061
Other Assets								
	13,268,933	587,644	51,589	-	-	1,150,654	-	15,058,820
Total assets	\$ 1,403,872,850	\$ 195,885,210	\$ 13,066,262	\$ 54,991,099	\$ 26,774,542	\$ 50,662,187	\$ (230,060,034)	\$ 1,515,192,116

CoxHealth

Consolidating Schedule – Balance Sheet Information

September 30, 2014

Liabilities and Net Assets

	Medical Centers	Cox- Branson	Cox- Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	CoxHealth Entities	Eliminations	Total
Current Liabilities								
Current maturities of long-term debt	\$ 11,744,921	\$ 2,344,922	\$ 71,092	\$ -	\$ -	\$ -	\$ -	\$ 14,160,935
Accounts payable	52,195,155	2,919,916	366,607	7,321,783	13,545	1,028,197	(624,872)	63,220,331
Accrued payroll and vacation pay	31,431,295	4,324,720	1,125,376	-	-	1,565,429	-	38,446,820
Accrued interest	6,254,677	1,004,964	-	-	-	-	-	7,259,641
Other accrued expenses	23,058,646	19,418,455	53,417	16,161,597	1,466,338	818,069	(30,003,384)	30,973,138
Estimated amounts due to third-party payers	1,770,827	439,757	1,100,751	-	-	-	-	3,311,335
Estimated insurance costs – current	17,065,437	1,292,178	242,205	-	-	576,468	-	19,176,288
Deferred revenue – current	3,551,190	137,953	-	2,574,160	-	402,731	(391,158)	6,274,876
Total current liabilities	147,072,148	31,882,865	2,959,448	26,057,540	1,479,883	4,390,894	(31,019,414)	182,823,364
Estimated Insurance Costs	20,995,290	-	-	-	-	8,317,680	(8,317,680)	20,995,290
Interest Rate Basis Swap	3,669,601	-	-	-	-	-	-	3,669,601
Deferred Compensation	11,066,626	-	-	-	-	-	-	11,066,626
Accrued Pension Liability	75,875,570	-	-	-	-	-	-	75,875,570
Other Long-Term Liabilities	-	-	1,987,825	3,900,000	225,949	1,602,875	(3,461,496)	4,255,153
Long-Term Debt	470,732,221	71,228,844	84,053	1,400,000	-	-	(1,400,000)	542,045,118
Total liabilities	729,411,456	103,111,709	5,031,326	31,357,540	1,705,832	14,311,449	(44,198,590)	840,730,722
Net Assets								
Unrestricted	634,508,141	82,930,264	8,034,936	23,633,559	390,825	35,044,185	(150,033,769)	634,508,141
Temporarily restricted	21,021,113	1,396,116	-	-	16,779,853	76,156	(18,252,125)	21,021,113
Permanently restricted	18,932,140	8,447,121	-	-	7,898,032	1,230,397	(17,575,550)	18,932,140
Total net assets	674,461,394	92,773,501	8,034,936	23,633,559	25,068,710	36,350,738	(185,861,444)	674,461,394
Total liabilities and net assets	\$ 1,403,872,850	\$ 195,885,210	\$ 13,066,262	\$ 54,991,099	\$ 26,774,542	\$ 50,662,187	\$ (230,060,034)	\$ 1,515,192,116

CoxHealth

Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2014

	Medical Centers	Cox- Branson	Cox- Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Other CoxHealth Entities	Eliminations	Total
Unrestricted Revenues, Gains and Other Support								
Patient service revenue (net of contractual discounts and allowances)	\$ 995,691,267	\$ 169,211,616	\$ 32,618,619	\$ -	\$ -	\$ 44,158,235	\$ (45,572,853)	\$ 1,196,106,884
Provision for uncollectible accounts	(95,298,581)	(26,425,318)	(4,804,375)	-	-	(794,844)	-	(127,323,118)
Net patient service revenue less provision for uncollectible accounts	900,392,686	142,786,298	27,814,244	-	-	43,363,391	(45,572,853)	1,068,783,766
Premium revenue	-	-	-	113,516,702	-	1,208,193	(1,208,193)	113,516,702
Other revenue	42,578,342	5,527,106	926,223	2,775,233	-	12,649,557	(3,813,188)	60,643,273
Net assets released from restrictions used for operations	1,090,912	-	168,299	-	1,965,773	-	-	3,224,984
	944,061,940	148,313,404	28,908,766	116,291,935	1,965,773	57,221,141	(50,594,234)	1,246,168,725
Expenses								
Salaries and wages	327,136,100	55,701,720	13,670,696	4,224,491	-	23,416,368	-	424,099,375
Employee benefits	79,807,234	12,814,831	3,199,726	1,149,652	-	4,480,726	(2,778,462)	98,673,707
Purchased services and professional fees	224,946,314	30,169,945	4,169,710	-	-	997,515	(7,945,789)	252,339,695
Supplies and other	199,034,786	34,687,660	5,187,371	108,534,523	2,354,636	24,699,223	(41,289,282)	333,208,917
State provider fee program	43,227,598	7,797,528	1,582,924	-	-	-	-	52,608,050
Depreciation and amortization	36,389,023	7,382,019	1,153,076	367,856	-	799,548	-	46,091,522
Interest	15,316,013	2,072,787	21,523	52,024	-	-	(52,024)	17,404,323
	925,853,068	150,626,490	28,953,026	114,328,546	2,354,636	34,393,380	(52,065,557)	1,224,425,589
Operating Income (Loss)	18,208,872	(2,313,086)	(26,260)	1,963,389	(388,863)	2,827,761	1,471,323	21,743,136
Other Income (Expense)								
Contributions	924,262	1,750,901	248,159	-	(1,386,944)	45,000	(1,419,299)	162,079
Investment return	33,291,144	960,339	102	275,674	40,749	\$10,754	(52,024)	35,026,738
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap and fair value option of Topic 825	(8,810,905)	966,940	-	-	(130,312)	52,445	-	(7,921,792)
Other	(275,792)	(83,070)	-	-	-	-	-	(358,862)
Change in interest in net assets of subsidiaries	7,219,045	-	-	-	-	-	(7,219,045)	-
	32,347,754	3,595,150	248,261	275,674	(1,476,507)	608,199	(8,690,368)	26,908,163
Excess (Deficiency) of Revenues Over Expenses	50,556,626	1,282,064	222,001	2,239,063	(1,865,370)	3,435,960	(7,219,045)	48,651,299
Contributed (return of) capital	(1,647,142)	-	-	1,647,142	-	-	-	-
Investment return – change in unrealized gains and losses on other than trading securities	(436,767)	-	-	(91,689)	-	-	-	(530,456)
Net assets released from restriction used for purchase of property and equipment	291,166	-	-	-	351,874	-	-	643,040
Change in defined benefit pension plan gains and losses and prior service costs	(37,853,458)	-	-	-	-	-	-	(37,853,458)
Increase (Decrease) in Unrestricted Net Assets	\$ 18,910,425	\$ 1,282,064	\$ 222,001	\$ 3,792,516	\$ (1,513,496)	\$ 3,435,960	\$ (7,219,045)	\$ 18,910,425

CoxHealth

Consolidating Schedule – Statement of Cash Flows Information Year Ended September 30, 2014

	Medical Centers	Cox- Branson	Cox- Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Other CoxHealth Entities	Eliminations	Total
Operating Activities								
Change in net assets	\$ 14,236,747	\$ 1,851,352	\$ 53,702	\$ 3,792,516	\$ 1,054,590	\$ 3,513,961	\$ (10,266,121)	\$ 14,236,747
Items not requiring (providing) operating cash flow								
Depreciation and amortization	36,389,023	7,382,019	1,153,076	367,856	-	799,548	-	46,091,522
(Gain) loss on sale of property and equipment	(197,031)	17,979	-	-	-	(500)	-	(179,552)
Loss on investment in equity investees	256,666	83,070	-	-	-	-	-	339,736
Appreciation of Series H Capital Appreciation Bonds	2,133,401	-	-	-	-	-	-	2,133,401
Net (gain) loss on investments	(14,340,405)	(1,403,490)	-	64,885	(118,617)	(80,242)	-	(15,877,869)
Change in defined benefit pension plan gains, losses and prior service costs	37,853,458	-	-	-	-	-	-	37,853,458
Change in interest in net assets of subsidiaries	(10,266,121)	-	-	-	-	-	10,266,121	-
Restricted contributions and investment income received	(1,661,324)	(569,288)	-	-	(4,885,733)	(78,001)	-	(7,194,346)
Change in fair value of interest rate basis swap	(3,876,160)	-	-	-	-	-	-	(3,876,160)
Changes in								
Receivables	(11,393,337)	(1,537,898)	208,101	(1,332,011)	(459,025)	(1,612,425)	16,828,238	701,643
Estimated third-party settlements	(124,639)	(569,402)	190,131	-	-	-	-	(503,910)
Accrued self-insurance costs	(6,146,776)	(952,559)	(34,359)	-	-	(12,637)	691,026	(6,455,305)
Other assets and liabilities	8,533,562	14,760,853	(1,003,946)	4,397,762	1,393,931	260,341	(16,880,260)	11,462,243
Net cash provided by (used in) operating activities	\$ 51,397,064	19,062,636	566,705	7,291,008	(3,014,854)	2,790,045	639,004	78,731,608

CoxHealth

Consolidating Schedule – Statement of Cash Flows Information Year Ended September 30, 2014

	Medical Centers	Cox- Branson	Cox- Monett Hospital	Health Systems HMO, Inc.	CoxHealth Foundation	Other CoxHealth Entities	Eliminations	Total
Investing Activities								
Proceeds from sales of short-term investments, net	\$ 29,483,670	\$ (235)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,483,435
Purchase of investments	(453,159,887)	(5,009,508)	-	(9,390,175)	(1,922,019)	(12,254,162)	-	(481,735,751)
Proceeds from sale of investments	476,170,752	21,890,637	-	20,132,455	250,166	11,771,346	-	530,215,356
Purchase of property and equipment	(72,429,615)	(25,373,074)	(764,888)	(671,832)	-	(602,257)	-	(99,841,666)
Proceeds from sale of property and equipment	108,927	2,000	-	-	-	-	-	110,927
Advances and repayments of long-term notes receivable, net	42,267	-	-	-	-	-	(639,004)	(596,737)
Advances to and investments in equity investees	(185,696)	-	-	-	-	-	-	(185,696)
Change in cash surrender value of life insurance policies	32,428	-	-	-	-	-	-	32,428
Net cash used in investing activities	(19,937,154)	(8,490,180)	(764,888)	10,070,448	(1,671,853)	(1,085,073)	(639,004)	(22,517,704)
Financing Activities								
Proceeds from restricted contributions and investment income received	1,661,324	569,288	-	-	4,885,733	78,001	-	7,194,346
Proceeds from issuance of long-term debt	-	698,079	-	-	-	-	-	698,079
Principal payments on long-term debt	(11,328,579)	(2,075,095)	(75,118)	-	-	-	-	(13,478,792)
Payment on regulatory settlement	-	-	-	-	-	-	-	-
Net cash provided by (used in) financing activities	(9,667,255)	(807,728)	(75,118)	-	4,885,733	78,001	-	(5,586,367)
Change in Cash and Cash Equivalents	21,792,655	9,764,728	(273,301)	17,361,456	199,026	1,782,973	-	50,627,537
Cash and Cash Equivalents, Beginning of Year	39,315,356	21,707,355	197,504	7,428,302	1,452,491	5,495,706	-	75,596,714
Cash and Cash Equivalents, End of Year	\$ 61,108,011	\$ 31,472,083	\$ (75,797)	\$ 24,789,758	\$ 1,651,517	\$ 7,278,679	\$ -	\$ 126,224,251

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2014

Assets

	Medical Centers	Cox- Branson	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 61,108,011	\$ 31,472,083	\$ -	\$ 92,580,094
Short-term investments	43,787,412	107,736	-	43,895,148
Assets limited as to use – current	19,442,152	1,004,964	-	20,447,116
Patient accounts receivable, net of allowance	131,288,489	22,842,768	-	154,131,257
Estimated amounts due from third-party payers	237,860	2,232,432	-	2,470,292
Other receivables	21,464,289	409,092	(18,903,347)	2,970,034
Supplies	11,983,158	1,936,089	-	13,919,247
Prepaid expenses	4,695,730	1,213,282	-	5,909,012
Total current assets	294,007,101	61,218,446	(18,903,347)	336,322,200
Assets Limited As To Use				
Investments				
Internally designated				
Building fund investments and other	203,322,303	17,521,597	-	220,843,900
Donated investments	171,289,992	-	-	171,289,992
Externally restricted				
Donor restricted	4,107,482	9,813,169	-	13,920,651
Under deferred compensation agreement	10,960,226	-	-	10,960,226
Held by trustees				
Self-insurance trust investments	32,891,980	-	-	32,891,980
Under bond indenture agreements	96,590,325	10,614,034	-	107,204,359
	519,162,308	37,948,800	-	557,111,108
Less amount required to meet current obligations	19,442,152	1,004,964	-	20,447,116
	499,720,156	36,943,836	-	536,663,992
Long-Term Receivables	16,089,046	-	-	16,089,046
Interest in Net Assets of Subsidiaries	185,861,444	-	(92,773,501)	93,087,943
Property and Equipment, At Cost	946,337,276	108,258,837	-	1,054,596,113
Less accumulated depreciation	576,663,167	11,812,553	-	588,475,720
	369,674,109	96,446,284	-	466,120,393
Goodwill and Intangible Assets	25,252,061	689,000	-	25,941,061
Other Assets	13,268,933	587,644	-	13,856,577
Total assets	\$ 1,403,872,850	\$ 195,885,210	\$ (111,676,848)	\$ 1,488,081,212

CoxHealth
Obligated Group Schedule – Balance Sheet Information
September 30, 2014

	Medical Centers	Cox- Branson	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 11,744,921	\$ 2,344,922	\$ -	\$ 14,089,843
Accounts payable	52,195,155	2,919,916	-	55,115,071
Accrued payroll and vacation pay	31,431,295	4,324,720	-	35,756,015
Accrued interest	6,254,677	1,004,964	-	7,259,641
Other accrued expenses	23,058,646	19,418,455	(18,903,347)	23,573,754
Estimated amounts due to third-party payers	1,770,827	439,757	-	2,210,584
Estimated self-insurance costs – current	17,065,437	1,292,178	-	18,357,615
Deferred revenue – current	3,551,190	137,953	-	3,689,143
Total current liabilities	147,072,148	31,882,865	(18,903,347)	160,051,666
Estimated Self-Insurance Costs	20,995,290	-	-	20,995,290
Interest Rate Basis Swap	3,669,601	-	-	3,669,601
Deferred Compensation	11,066,626	-	-	11,066,626
Accrued Pension Liability	75,875,570	-	-	75,875,570
Long-Term Debt	470,732,221	71,228,844	-	541,961,065
Total liabilities	729,411,456	103,111,709	(18,903,347)	813,619,818
Net Assets				
Unrestricted	634,508,141	82,930,264	(82,930,264)	634,508,141
Temporarily restricted	21,021,113	1,396,116	(1,396,116)	21,021,113
Permanently restricted	18,932,140	8,447,121	(8,447,121)	18,932,140
Total net assets	674,461,394	92,773,501	(92,773,501)	674,461,394
Total liabilities and net assets	\$ 1,403,872,850	\$ 195,885,210	\$ (111,676,848)	\$ 1,488,081,212

CoxHealth

Obligated Group Schedule – Statement of Operations Information

Year Ended September 30, 2014

	Medical Centers	Cox- Branson	Eliminations	Total
Unrestricted Revenues, Gains and Other Support				
Patient service revenue (net of contractual discounts and allowances)	\$ 995,691,267	\$ 169,211,616	\$ -	\$ 1,164,902,883
Provision for uncollectible accounts	(95,298,581)	(26,425,318)	-	(121,723,899)
Net patient service revenue less provision for uncollectible accounts	900,392,686	142,786,298	-	1,043,178,984
Other revenue	42,578,342	5,527,106	-	48,105,448
Net assets released from restrictions used for operations	1,090,912	-	-	1,090,912
	<u>944,061,940</u>	<u>148,313,404</u>	<u>-</u>	<u>1,092,375,344</u>
Expenses				
Salaries and wages	327,136,100	55,701,720	-	382,837,820
Employee benefits	79,807,234	12,814,831	-	92,622,065
Purchased services and professional fees	224,948,314	30,169,945	-	255,118,259
Supplies and other	199,034,786	34,687,660	-	233,722,446
State provider tax program	43,227,598	7,797,528	-	51,025,126
Depreciation and amortization	36,389,023	7,382,019	-	43,771,042
Interest	15,310,013	2,072,787	-	17,382,800
	<u>925,853,068</u>	<u>150,626,490</u>	<u>-</u>	<u>1,076,479,558</u>
Operating Income (Loss)	<u>18,208,872</u>	<u>(2,313,086)</u>	<u>-</u>	<u>15,895,786</u>
Other Income (Expense)				
Contributions	924,262	1,750,901	-	2,675,163
Investment return	33,291,144	960,339	-	34,251,483
Change in unrealized gains and losses on trading securities, fair value of interest rate basis swap, and fair value option of Topic 825	(8,810,905)	966,980	-	(7,843,925)
Other	(275,792)	(83,070)	-	(358,862)
Change in interest in net assets of subsidiaries	7,219,045	-	(1,282,064)	5,936,981
	<u>32,347,754</u>	<u>3,595,150</u>	<u>(1,282,064)</u>	<u>34,660,840</u>
Excess (Deficiency) of Revenues Over Expenses	<u>50,556,626</u>	<u>1,282,064</u>	<u>(1,282,064)</u>	<u>50,556,626</u>
Contributed (return of) capital	(1,647,142)	-	-	(1,647,142)
Investment return – change in unrealized gains and losses on other than trading securities	(436,767)	-	-	(436,767)
Net assets released from restriction used for purchase of property and equipment	291,166	-	-	291,166
Change in defined benefit pension plan gains and losses and prior service costs	(37,853,458)	-	-	(37,853,458)
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 10,910,425</u>	<u>\$ 1,282,064</u>	<u>\$ (1,282,064)</u>	<u>\$ 10,910,425</u>